

## 4.

## REPORTING

### 4.8 SAO Annual Report Schedules 4.8.9 Risk Management (Schedule 21)

#### **Financial Reporting Guidance**

4.8.9.10 Please refer to [Risk Management Principles](#) for GAAP financial reporting guidance.

Cash basis governments should also refer to this section for definitions and note disclosure guidance for any potentially material contingencies that are either probable or reasonably possible.

#### **Applicability of Schedule**

4.8.9.20 Schedule 21 is required for all local governments. The purpose of this schedule is to report self-insurance or assumption of any insurable risk type (liability, property, health and welfare, unemployment compensation, and workers' compensation). Local governments may self-insure their own risks only (an individual self-insurance program) or self-insure jointly with other governments pursuant to Chapter [48.62](#) RCW or other enabling statute.

4.8.9.30 Schedule 21 is not applicable in the following situations:

- The only risk assumed is an annual deductible of a purchased insurance policy.
- All of the local government's insurable risks are covered through membership in a public entity risk pool.

### 4.8.9.40 INSTRUCTIONS TO PREPARER

**Self-Insurance Program Manager:** This is generally the person responsible for designing and implementing an overall risk management process for the entity.

**Manager Phone:** This is the phone number of the Self-Insurance Program Manager, or another number to be used to contact the Self-Insurance Program Manager.

**Manager Email:** This is the email address of the Self-Insurance Program Manager. Use the following information when preparing responses in the schedule for the method used by the entity to address risks related to property, liability, health and welfare, unemployment compensation, workers' compensation and any other insurable risk.

**Self-Insurance:** risk management approach in which an entity sets aside a sum as a protection against a probable loss, instead of transferring the risk by purchasing an insurance policy. This term is misleading as no insurance is involved, and the risk is retained by the entity. In fact, risk retention is a key component in determining whether an entity self-insures.

**Public Entity Risk Pool:** a cooperative group of governmental entities joining together through a written agreement to finance an exposure, liability or risk. Risk may include property and liability, employee health care, workers' compensation or a pool may be a stand-alone entity or be included as part of a larger governmental entity that acts as the pool's sponsor.

There are two basic types of public entity risk pools:

**Risk is retained by members.** In this case, members pay a required contribution to a pool based on the individual member's claims/loss experience. If the member's actual losses exceed the initial charge, the member will be assessed an additional amount to fully reimburse the pool. On the other hand, if the premium exceeds the losses, the entity will receive a refund. In this situation, risk has been retained by the member, and the pool functions mainly as a claims servicer, and it is considered to be self-insurance.

- a) **Banking:** an arrangement by which monies are made available for pool members in the event of loss on a loan basis.
- b) **Claims-servicing:** an arrangement by which a pool manages separate accounts for each pool member from which the losses of that member are paid.

**Risk is transferred to the pool.** This is often referred as a risk-sharing pool. In this case, the pool collects premiums that it estimates will cover the costs of all claims for which the pool is obligated. If a member's losses are different than its premiums, there is no regular supplemental assessment or refund. The insurer (pool) views its activities in the aggregate, rather than on an individual insured member basis (as is the case for pools where risk is retained by members). In this situation, risk is shared by members, with the pool acting as the insurer. Although risk is transferred by members to the pool, it is not the same as purchasing an insurance policy since the pool is organized as a cooperative – the members remain liable for unpaid claims in excess of pool resources. Many risk pools have a “retroactive assessment” provision in their agreements whereby the risk pool will charge members in the event losses exceed available assets. Alternatively, pools may declare supplemental assessments or refunds depending on the loss experience of members or may increase or decrease premiums for future coverage.

Some public entity risk pools do not involve any transfer or pooling of risk among pool participants. Each participant is completely responsible for (and only responsible for) its own claims liabilities. In this type of arrangement, the pool is acting as a claims servicer, not as an insurer, and it is considered to be self-insurance.

**Unemployment Compensation – Taxable:** The entity is assigned a rate and pays quarterly based on wages paid to employees. Rates are reassessed annually by the Employment Security Department.

**Unemployment Compensation – Reimbursable:** The Reimbursable status is considered self-insurance and the most risky. Entities must be approved for this status by the Employment Security Department. Entities report quarterly wages to the Employment Security Department, but only pay when an unemployment claim is filed.

**Worker's Compensation – Reimbursable:** The Reimbursable status is considered self-insurance and the most risky. Entities only pay when a worker's compensation claim is filed.

Use the following information to help complete the schedule if one or more class of risk has been retained by the entity (self-insurance).

**Individual Self-Insurance Program:** A formal program established and maintained by a local government entity to provide advance funding to self-insure for property and liability risks on its own behalf as opposed to risk assumption, which means a decision to absorb the entity's financial exposure to a risk of loss without the creation of a formal program of advance funding of anticipated losses.

**Joint Self-Insurance Program:** Any two or more local government entities which have entered into a cooperative risk sharing agreement subject to regulation under Chapter 48.62 RCW.

**Third Party Administrator:** An organization that processes claims and performs other administrative services in accordance with a service contract.

**Claims Audit:** An audit conducted by an independent qualified claims auditor not affiliated with the program, its insurers, its broker of record, or its third-party administrator. The services performed generally include an in-depth, written evaluation of the claims handling activities, identifying strengths, areas of improvement, findings, conclusions and recommendations to improve quality of claims management and processing. These reviews are required to be performed every three years by state law (WAC 200-100-050 for property and liability and WAC 200-110-120 for health and welfare).

**Actuarially Determined Liabilities:** Joint property and liability programs are **required** to obtain an annual actuary review (WAC 200-100-03001) to provide estimates of unpaid claims measured at eighty percent confidence level. Joint and individual health and welfare programs are not subject to this requirement.

**Description of Risk Type:** This is the name of the program for the insurable risk(s) the entity has elected to retain the risk, or self-insure.

**Number of Claims Received During the Period:** This is the number of claims received by the entity during the reporting period (fiscal year) regardless of the current status or disposition of such claims.

**Number of Claims Paid During the Period:** The number of claims that were paid (in any amount) during the reporting period.

**Total Amount of Claims Paid During the Period:** The total dollar amount of claims paid during the reporting period.

- 4.8.9.50 The schedule should be prepared on the same basis of accounting, for the same period and reporting entity, and using the same underlying accounting records as the Schedule 01 and financial statements.
- 4.8.9.60 The template for Online Filing is available on the SAO's website page, BARS Reporting Templates. When using the Online Filing option, the system will require completion of question 1 and, based on the answer, indicate the need for completion of the rest of the schedule. If required, this template will need to be attached.

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(County/City/District)

**Local Government Risk Assumption  
For the Year Ended December 31, 20\_\_**

1. Self-Insurance Program Manager: \_\_\_\_\_
2. Manager Phone: \_\_\_\_\_
3. Manager Email: \_\_\_\_\_
4. How do you insure property and liability risks, if at all?
  - a. Self-insure some or all risks
  - b. Belong to a public entity risk pool
  - c. Purchase private insurance
  - d. No insurance
5. How do you provide health and welfare insurance (e.g., medical, dental, prescription drug, and/or vision benefits) to employees, if at all?
  - a. Self-insure some or all benefits
  - b. Belong to a public entity risk pool
  - c. All benefits provided by health insurance company or HMO
  - d. Not applicable - no such benefits offered
6. How do you insure unemployment compensation benefits, if any?
  - a. Self-insured ("Reimbursable")
  - b. Belong to a public entity risk pool
  - c. Pay taxes to the Department of Employment Security ("Taxable")
  - d. Not applicable – no employees
7. How do you insure workers compensation benefits, if any?
  - a. Self-insured ("Reimbursable")
  - b. Belong to a public entity risk pool
  - c. Pay premiums to the Department of Labor and Industries
  - d. Not applicable – no employees
8. How do you insure other risks and obligations, if any?
  - a. Self-insure some or all other risks
  - b. Belong to a public entity risk pool
  - c. Purchase private insurance
  - d. Not applicable – have no other insurable risks

**If the answer to any of the above questions is (a), then answer the rest of the form in relation to the government's self-insured risks.**

**If NOT, STOP, the local government does not need to complete the rest of this Schedule.**

9. Does the local government self-insure any risks as an individual program? (yes/no)
- i. If answered YES, does the local government allow another separate legal entity into its self-insurance program(s)? (yes/no) For example, employees of a different organization participate in a health and welfare program of a city.
- If so, list the other entity or entities: \_\_\_\_\_
10. Does the local government self-insure any risks as a joint program? (yes/no)
- i. If answered YES, list the other member(s): \_\_\_\_\_
11. Are any claims administered by contract with a third-party administrator? (yes/no)
12. Did the local government (or its third party administrator, if applicable) receive a claims audit within the last three years? (yes/no)
13. Were the program's revenues sufficient to cover the program's expenses? (yes/no)
14. Did the program use an actuary to determine its liabilities? (yes/no)
15. For each type of self-insured risk, describe the risk, the number of claims received during the period, the number of claims paid during the period and the amount of claims paid in the following table:

**EXAMPLE**

Description of Risk Type	Number of claims received during the period	Number of claims paid during the period	Total amount of claims paid during the period
Liability (automobile)	15	12	\$104,366

Description of Risk Type	Number of claims received during the period	Number of claims paid during the period	Total amount of claims paid during the period